

**Children's Reading Center Charter
School**

**Financial Statements
And
Independent Auditors' Report**

June 30, 2007

Children's Reading Center Charter School

Special Purpose Financial Statements and Independent Auditors' Reports

June 30, 2007 and 2006

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Kattell and Company, P.L.

Serving the Nonprofit Community

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Children's Reading Center Charter School
East Palatka, Florida

We have audited the accompanying statements of financial position of Children's Reading Center Charter School (the School) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These special purpose financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The School is a program of Children's Reading Center, Inc. As discussed in Note 1 to the financial statements, these special purpose financial statements are those of the School only, and are not intended to be a complete presentation of financial position, changes in net assets and cash flows of Children's Reading Center, Inc.

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2007 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Kattell and Company, P.L.

September 28, 2007
Gainesville, Florida

"Not everything that counts can be counted, and not everything that can be counted counts."

-Albert Einstein

Statements of Financial Position
June 30, 2007 and 2006
Children's Reading Center Charter School

	2007	2006
Assets		
Current Assets:		
Cash	\$446,694	\$168,509
Due from the School Board	--	5,000
Prepaid Lease	254,863	100,000
Total Current Assets	<u>701,557</u>	<u>273,509</u>
Capital Assets:		
Furniture and Equipment	18,328	12,033
Less: Accumulated Depreciation	<u>(6,975)</u>	<u>(3,480)</u>
Net Capital Assets	<u>11,353</u>	<u>8,553</u>
Total Assets	<u>\$712,910</u>	<u>\$282,062</u>
Liabilities and Net Assets		
Liabilities:		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 701	\$ 9,140
Due to District School Board	<u>3,975</u>	<u>--</u>
Total Current Liabilities:	<u>4,676</u>	<u>9,140</u>
Net Assets:		
Unrestricted:		
Investment in Property and Equipment	11,353	8,553
Board Designated	150,000	--
Other Unrestricted Net Assets	<u>298,802</u>	<u>264,369</u>
Total Unrestricted	<u>460,155</u>	<u>272,922</u>
Temporarily Restricted	248,079	--
Total Net Assets	<u>708,234</u>	<u>272,922</u>
Total Liabilities and Net Assets	<u>\$712,910</u>	<u>\$282,062</u>

See accompanying notes.

Statement of Activities
For Years Ended June 30, 2007 and 2006
Children's Reading Center Charter School

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Total
Revenue:				
Florida Education Finance Program	\$ 660,306	\$ --	\$ 660,306	\$ 558,584
Florida Reads DOE Contribution	--	248,079	248,079	--
Walton Family Foundation Contribution	150,000	--	150,000	--
Title I Grant	48,207	--	48,207	39,258
Start Up Grant	--	--	--	11,863
Jump Ahead Grant (ESE)	--	--	--	5,000
Public School Technology	1,476	--	1,476	1,576
Minigrant	--	--	--	400
Interest Income	4,053	--	4,053	4,786
Other Revenues	17,713	--	17,713	6,040
Total Revenue	881,755	248,079	1,129,834	627,507
Expenses:				
Basic Instructional	449,252	--	449,252	397,335
Instructional Support Services	10,193	--	10,193	50,215
General Support	235,077	--	235,077	162,200
Total Expenses	694,522	--	694,522	609,750
Change in Net Assets	187,233	248,079	435,312	17,757
Net Assets, Beginning	272,922	--	272,922	255,165
Net Assets, End	\$ 460,155	\$ 248,079	\$ 708,234	\$ 272,922

See accompanying notes.

Statements of Cash Flows
June 30, 2007 and 2006
Children's Reading Center Charter School

	2007	2006
Cash Flows from Operating Activities:		
Change in Net Assets	\$435,312	\$ 17,757
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation	3,495	1,890
Changes In:		
Receivables	5,000	
Prepays	(154,863)	28,042
Accounts Payable and Accrued Expenses	(4,464)	2,359
Deferred Revenue	--	(13,856)
Net Cash Provided by Operating Activities	284,480	36,192
Cash Flows from Investing Activities:		
Purchase of Fixed Assets	(6,295)	(5,719)
Net Increase in Cash	278,185	30,473
Cash, Beginning	168,509	138,036
Cash, End	\$446,694	\$168,509

See accompanying notes.

Notes to the Financial Statements
June 30, 2007 and 2006
Children's Reading Center Charter School

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Children's Reading Center, Inc. is a not-for-profit corporation organized in 1999 pursuant to Chapter 617, Florida Statutes and the Florida Not-for-Profit Corporation Act. In 2003, the Children's Reading Center, Inc. began operating Children's Reading Center Charter School (the "School") an elementary school in Palatka, Florida. These special purpose financial statements are those of the School only, and are not intended to present the financial position, changes in net assets or cash flows of Children's Reading Center, Inc. In accordance with the provisions of paragraph 10.855(3), Rules of the Auditor General, these special purpose financial statements are prepared in accordance with the provisions of the Financial Accounting Standards Board for not-for-profit organizations.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the Putnam County District School Board (the "District"). The current charter is effective until June 30, 2015, and may be renewed provided that a program review demonstrates that certain criteria addressed in Section 1002.33(7), Florida Statutes, have been successfully accomplished. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. Pursuant to Section 1002.33(8)(e), Florida Statutes, the charter school contract provides that in the event the School is dissolved or terminated, any unencumbered funds and all School property purchased with public funds automatically revert to the District. During the term of the charter, the District may also terminate the charter if good cause is shown. The School is considered a component unit of the District.

Cash and Cash Equivalents

Cash and equivalents include cash and certificates of deposit in financial institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. At June 30, 2007 and 2006, approximately \$358,000 and \$73,000, respectively, was held in excess of FDIC insurance coverage.

Prepaid Lease

The School advanced \$100,000 in 2006 and an additional \$154,863 in 2007 to Children's Reading Center, Inc for a total of \$254,863 in pre-paid rent. The lease agreement requires first and last year's rent by July 1, 2007

Capital Assets and Depreciation

Capital assets are defined by the School as assets with an initial, individual cost of \$750 or more and an estimated useful life of more than one year. These assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value on the date of donation. Depreciable capital assets are depreciated using the straight-line method over estimated useful lives of 5 years.

Accounting for Net Assets

The Corporation's net assets, the excess of assets over liabilities, are reported in two mutually exclusive classes:

Temporarily Restricted - Those net assets resulting from inflows of assets whose use is limited by donor-imposed restrictions which are fulfilled by actions of the Corporation.

Unrestricted - Those net assets that are neither permanently or temporarily restricted.

Notes to the Financial Statements
June 30, 2007 and 2006
Children's Reading Center Charter School

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Revenue Recognition

Student Funding. Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Florida Statutes, the School reports the number of full-time equivalent students (FTEs) and related data to the District. Under the provisions of Florida Statutes, the District reports the number of FTEs and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under FEFP and the actual weighted FTEs reported by the School during the designated full-time equivalent student survey periods. FEFP funding is paid to the School monthly. All amounts are paid and reported as revenue within the fiscal year. During the year the School served 125 full-time equivalent students.

Government Grants. The School receives financial assistance in the form of government grants that are provided on a cost-reimbursement basis. This assistance is generally based on applications submitted to and approved by the granting agency. Grant revenues are recognized as allowable expenses are incurred.

Contributions. Contributions are recorded at fair value when received. The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. However, donor-restricted contributions whose restrictions are met within the same fiscal year are reported as unrestricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

Compensated Absences

The School pays employees for unused sick and vacation time at the end of each school year. Therefore, the School has no liability for compensated absences.

Tax Exempt Status

Children's Reading Center, Inc. and its programs are exempt from income taxes according to provisions of Section 501(c)(3) of the Internal Revenue Code and, therefore, the School has no provision for federal income taxes. In addition, the Children's Reading Center, Inc. has been classified by the Internal Revenue Service as an organization that is not a private foundation and qualifies for the charitable contribution deduction. The School is operated exclusively for charitable, scientific and educational purposes; specifically the operation of a charter school in Putnam County, Florida.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

NOTE 2 – NET ASSETS

Designated. The board has designated the unexpended portion of the Walton Family Foundation grant for future uses.

Temporarily Restricted. These net assets are restricted to the purposes of a Florida Department of Education grant, as specified in the grant budget. Those purposes are generally restricted to a reading coach and related training, technology, and equipment to be acquired in the coming year.

**Notes to the Financial Statements
June 30, 2007 and 2006
Children's Reading Center Charter School**

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2007 and 2006 was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Furniture, Fixtures & Equipment	\$ 12,033	\$ 6,295	--	\$ 18,328
Accumulated Depreciation	3,480	3,495	--	6,975
Net Capital Assets	<u>\$ 8,553</u>	<u>\$2,800</u>	<u>--</u>	<u>\$ 11,353</u>
	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Furniture, Fixtures & Equipment	\$ 6,314	\$ 5,719	--	\$ 12,033
Accumulated Depreciation	1,590	1,890	--	3,480
Net Capital Assets	<u>\$ 4,724</u>	<u>\$3,829</u>	<u>--</u>	<u>\$ 8,553</u>

Depreciation expense was charged to General Support.

NOTE 4 – RELATED PARTY TRANSACTIONS

The School operates as a separate program for the Children's Reading Center, Inc. In addition to the transactions discussed in Note 1, Prepaid Lease, the School paid Children's Reading Center, Inc. \$2,000 for the purchase of a trailer.

NOTE 5 – EMPLOYEE RETIREMENT PLAN

The School made contributions on behalf of its employees to a Simplified Employee Pension (SEP), a non-contributory defined contribution pension plan for the benefit of substantially all full time employees. Contributions to the plan are 7% of eligible salaries. The plan is administered by Capital Bank and Trust Company. Retirement plan contributions amounted to \$10,442 and \$5,693 for the years ended June 30, 2007 and 2006, respectively.

NOTE 6 – RISK MANAGEMENT

The School is exposed to various risks of loss, including general liability, personal injury, workers compensation, and errors and omissions. To manage its risks, the School has purchased commercial insurance. Settled claims resulting from these risks have not exceeded commercial coverage for the past three years.

NOTE 7 – OPERATING LEASES

The School has entered an agreement with Children's Reading Center, Inc. to lease a facility now under construction. The School plans to occupy the facility upon receipt of the certificate of occupancy by the County, (currently expected in October, 2007). The lease term ends June 30, 2014. Lease payments will be \$10,417 per month. The School is required to advance first and last year's rent prior to occupancy. As a result, the first regular lease payment will be due twelve months after occupancy.

Kattell and Company, P.L.

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MANAGEMENT LETTER

To the Board of Directors,
Children's Reading Center Charter School

We have audited the special purpose financial statements of Children's Reading Center Charter School (the "School"), as of and for the year ended June 30, 2007, and have issued our report thereon dated September 28, 2007. We have also issued our report on compliance and on internal control over financial reporting. That report should be considered in conjunction with this management letter.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.850, Rules of the Auditor General, which govern the conduct of charter school audits performed in the State of Florida and require that certain items be addressed in this letter.

Prior Audit Findings

The Rules of the Auditor General require that we comment as to whether or not findings reported in the preceding audit report have been corrected and recommendations made in the preceding audit report have been followed. In that regard, there were no prior year audit findings.

Financial Emergency

The scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, *Determination of Financial Emergency*. We determined that the School has not met one or more of the conditions described in that section that are indicative of a state of financial emergency.

Other Matters

Our audit did not reveal any other matters that we are required to include in this management letter.

This report is intended solely for the information and use of the School's management and Board of Directors, the District School Board and the State of Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the cooperation and courtesies extended to us during the course of the audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or any other matters.

Kattell and Company, P.L.

September 28, 2007
Gainesville, Florida

Kattell and Company, P.L.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Board of Directors of
Children's Reading Center Charter School
East Palatka, Florida

We have audited the special purpose financial statements of Children's Reading Center Charter School (the "School") as of and for the year ended June 30, 2007, and have issued our report thereon dated September 28, 2007. Our report was modified to explain that the School is a program of Children's Reading Center, Inc. and prepares special purpose financial statements that are not intended to be a complete presentation of financial position, changes in net assets and cash flows of Children's Reading Center, Inc. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

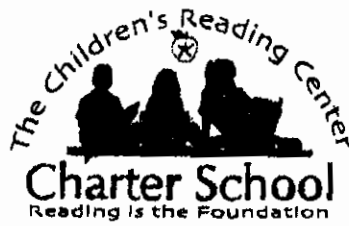
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the School's management and Board of Directors, the District School Board and the State of Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Kattell and Company, P.L.

September 28, 2007
Gainesville, Florida



September 28, 2007

To Whom It May Concern:

Thank you for the draft of our 2006-2007 financial audit. We are pleased there were no findings. Thank you for your assistance with our audit this year.

Sincerely,

Dr. Geri Melosh
Principal